

February 15, 2005

Opening Statement by Congressman Paul E. Gillmor
House Financial Services Committee
Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises
Hearing entitled, "The SEC's Market Structure Proposal: Will It Enhance Competition?"

Thank you, Mr. Chairman, for calling this hearing and bringing this distinguished panel of witnesses before us to share their comments on the Securities and Exchange Commission's (SEC) Regulation NMS proposal.

I share our Full Committee Chairman's sentiments that our market rules and regulations have not always kept pace with technological advancements and applaud the SEC's efforts to provide greater transparency and investor choice for all Americans.

However, when the SEC republished its proposed Regulation NMS in December I did send a comment letter expressing my reservations regarding the Voluntary Depth Alternative to SEC Chairman William H. Donaldson.

I am concerned that the proposed Voluntary Depth Alternative would create a trading system that shares many of the problems of a Consolidated Limit Order Book (CLOB), a concept first envisioned in the late 1970's, then debated and rejected by Congress and the SEC in 2000. This proposed alternative would require mandatory depth-of-book order routing that would turn market centers into mindless order routers and would increase investors' execution costs. The CLOB was rejected by Congress and the SEC previously, for one overriding reason: it would effectively nationalize the U.S. equity markets, removing incentives for markets to compete with one another.

The U.S. equity markets are currently the strongest in the world. Today, we benefit from competition within markets and competition between markets. These competitive forces combine to create low transaction costs, tight spreads, low volatility, innovative price discovery and equal protection and choice for all investors – large and small. Intermarket competition is currently transforming the largest equities market in the world. I am concerned that the Voluntary Depth Alternative would undermine the competitive forces that lead to such market innovation.

I look forward to learning the opinions of today's witnesses on both alternatives put forth by the SEC in December and their probable impact on market competition. Thank you again, Mr. Chairman, for scheduling this hearing and I look forward to an informative session.